THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Officers

23 May 1982

NOTE FOR: DCI

FROM : ANIO/USSR-EE

SUBJECT : NSC Meeting, 24 May 1982, 1030-1130

As of 1300, this Sunday, 23 May, we have not received the NSC Options paper. My presentation of the options to be proposed by the NSC staff is based on what Roger Robinson told me on Saturday afternoon. There was no answer in his office when I tried to reach him this Sunday. We may receive the Options paper Monday morning or it may be distributed at the meeting. The annexes are papers you may want to use at the meeting. The attachments provide background information.

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Revw on May 88

Major Points of Western Alternatives to Soviet Natural Gas: Prospects and Implications

I. Western governments need to move soon to prevent a dangerous degree of Soviet leverage over Western Europe.

- By 1990 Western Europe will depend on Soviets for 25-30 percent of gas needs.
- Japan's dependence minimal, about 1 percent.
- If no alternative is forthcoming and second Siberia-to-Western Europe pipeline is built, Western Europe's dependence on USSR would exceed 35 percent by the mid-1990s.
- As soon as the first Siberia-to-Western Europe pipeline is completed (1986) Soviet leverage to prevent a cooperative Western alternative rises.
- In the event of military conflict Western Europe would be out of luck if no alternative source exists or--at a minimum--no reserves have been provided for.

II. Soviets stand to gain major benefits economically and politically.

- With one new pipeline to Western Europe, Moscow will realize net hard currency earnings of $15-20 billion between 1984-1990 and $4-5 billion per year thereafter. Two pipelines could increase these gains substantially. (pay hard debt— should work other way)
  -- These earnings would go a long way to pay for badly needed Western goods and would lessen the domestic burden of continued increases in military spending. how much?
- Moscow would gain increased influence over political

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- Moscow would gain increased influence over political behavior in Western Europe.
  - -- Could discourage decisions harmful to Soviets (e.g., unified Western sanctions or even NATO force modernization).
  - -- USSR already threatened Western Europe with loss of energy projects over Afghanistan and Polish issues.
- Gains from Sakhalin deal with Japan more economic than political.
  - -- Hard currency earnings would net Moscow about $24 billion dollars over 20 year life of project.
  - -- Political leverage minimal since Japan could find other sources (e.g., Indonesia, Brunei, Sarawak, Australia, Thailand, Canada, Alaska, Abu Dhabi and Quatar) for the 1 percent of its energy supplied by the USSR.

III. A viable Western alternative would rob Moscow of these potential gains and force them to reappraise domestic and foreign policies.

- With loss of hard currency revenue, Soviets would have to seek more credit or cut back import commitments and/or aid to clients.
- If credit restrictions were also in effect, pressure on Moscow would be even greater.
  - -- Domestic resources for military might be squeezed.
  - -- Aid to Eastern Europe, Cuba, and Third World would be harder to come by.

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IV. Several Western Alternatives Exist

- Best alternative probably the Netherlands.
  - -- Dutch reserves large enough, but conservation policies will limit production.
  - -- However, growing budgetary pressures on The Hague could increase attractiveness of more gas sales.
- Norwegian gas offers secure but costly alternative.
  - -- Costs would probably run 15-20 percent higher than Soviet gas if no subsidies were offered for Norwegian project.
- A triangular deal--Norwegian gas via the UK to the continent--could save time and money and might be viable by the early 1990s.
- Most other alternatives probably too costly.

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